

National Home Center News

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The newspaper for retailers serving homeowners and contractors. Published by Lebhar-Friedman Inc.

Dec. 17, 1984



CAN LOWE'S HAVE IT BOTH WAYS?

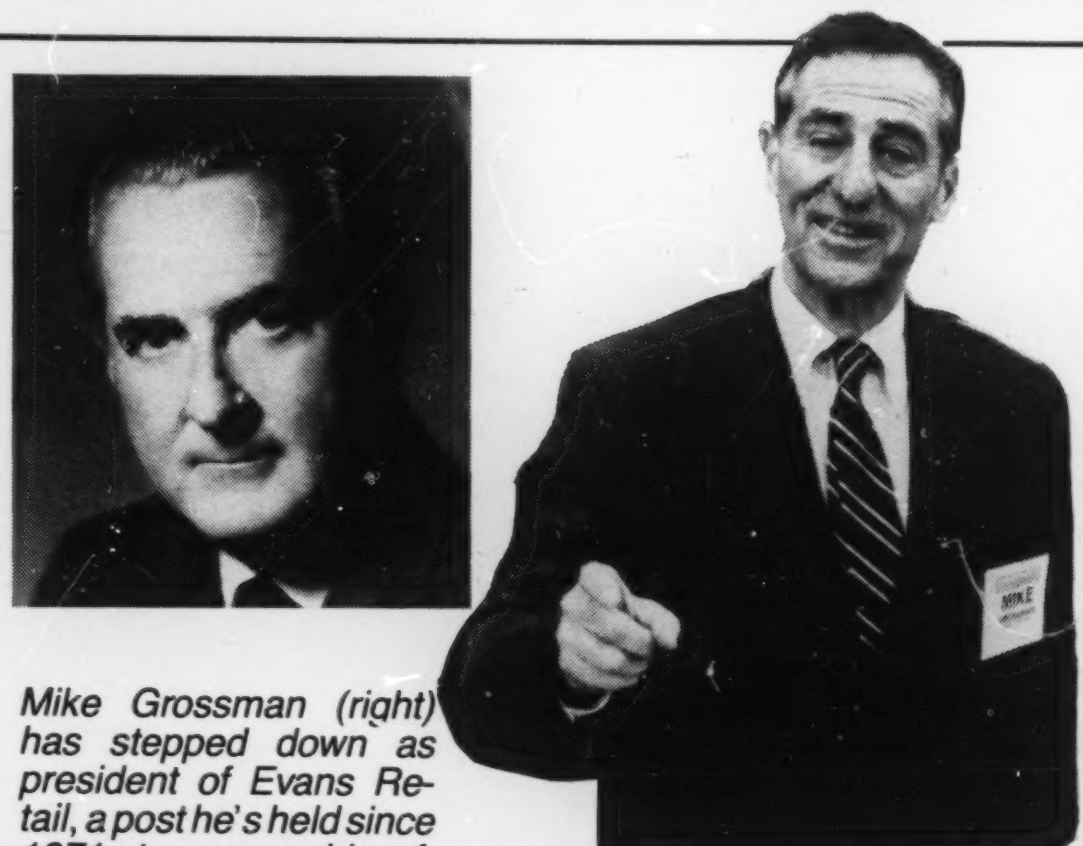
A special
National Home Center News
report

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Mike Grossman (right) has stepped down as president of Evans Retail, a post he's held since 1971, to pursue his efforts to purchase the \$1 billion division from its parent, Evans Products, and Evans' chairman, millionaire financier Victor Posner (inset).

Grossman resigns top post in bid to buy Evans Retail

By John Caulfield
NHCN senior editor

BRAINTREE, Mass. — Mike Grossman has stepped down as president of the Evans Retail division of Evans Products.

At the behest of the corporation's chairman Victor Posner, Grossman has agreed to take leave of his position while he continues in his attempts to buy back the home center group from its parent company.

In October, Grossman and the investment interests he represents, made what one Evans official said was a "firm offer" to repurchase the 345-unit retail group, whose sales will

exceed \$1 billion in 1984.

The offer, which was tendered with Evans' bank lenders, was estimated to range between \$350 million and \$400 million by sources close to the company, although these figures could not be confirmed. Grossman did not return phone messages left with his office, and Donald Glazer, Evans Products' chief operating officer, declined to comment.

The Grossman offer comes at a time when the financial travails that have beset Evans Products for more than three years are coming to a climax.

The company is under the gun to meet its debt payment,

due Jan. 31, 1985, of \$332.5 million in term loans and \$100 million owed by its finance subsidiary.

In addition, the company's stock continues to plummet, despite the general good health of the retail division. For the week ended Nov. 30, Evans Products was selling for \$3.50 per share, compared to an estimated \$20 per share when Posner bought into the company.

Posner, the Miami financier who controls 43.2% of Evans Products, and Glazer met with bankers in New York on Nov. 28 to discuss this problem, "and we agreed that over the next 45

(Continued on page 128)

NEWSBREAKS

ANOTHER LARGE LOWE'S. Lowe's will open a 51,000-sq.-ft. store late next month in North Pensacola, Fla. Located in a former Woolco, it is the second outlet of roughly that size for the chain, whose average store is 12,000 sq. ft.

NEW SEQUOIA CHIEF. Paul Hylbert, a Wickes Cos. senior vp, has been named president of the company's Sequoia Supply wholesale operation. Ernest Warns, current Sequoia president, will become chairman.

INSIDE:

BEAVER LUMBER becomes the first Canadian home center to tout warehouse pricing in its ads Page 2
NEW FEDERAL AND STATE LAWS combat counterfeit product influx 3
MILLWORKERS UNIONS urge boycott of three Midwest home center chains in L-P strike struggle 3
HARVEY KNELL is named president of W. R. Grace's reshuffled western region 3
WESTERN HOME CENTER SHOW draws lukewarm reactions from retailers and vendors 4
EMPLOYEE PIRACY is cannibalizing the home center industry: Editorial 13

Erb, Eclipse launch joint venture to open Cleveland warehouses

By Phillip M. Perry
NHCN associate editor

BIRMINGHAM, Mich. — Erb Lumber and Eclipse Industries entered into a joint venture last month to open and operate warehouse home improvement centers.

The venture, a new company owned in equal portions by the two participants, plans to open up to a half dozen stores in the Cleveland area, if its first unit, a 90,000-sq.-ft. store, scheduled to open on that city's west side in early 1985, proves successful. Although additional markets have not been revealed, the two companies have not ruled out expanding beyond

the Cleveland area. A name for the new company was expected to be decided upon by the first week of this month.

"There has been more activity in the warehouse concept," said Erb Lumber president Fred A. Erb, in explaining why the two companies made their move this year. "We see this as a way to get our feet wet and take a look" at how both companies can benefit from the format.

Combining talents with Erb Lumber represented a solution to the challenge of finding financial resources needed to carry out a desired expansion drive by Eclipse, a \$30 million chain of

seven home centers, based in St. Louis, operating under the name B&B Home Supply.

Last spring, Eclipse hired Wayne Zetzman, former vp of finance at Payless Cashways, for a newly created position of senior vp for finance and administration, with the express mission of developing a long range strategic plan for more rapid expansion with larger units. At the time, the company indicated it needed a way to capitalize its growth plans (NHCN, May 21).

Much of the initial funding will come directly from the retained earnings of Erb Lumber, (Continued on page 126)

Smooth sailing ahead for '85 industry sales expansion

Analysts predict current pause to break loose early next year

NHCN staff roundup
Written by field editor
Laura Liebeck

NATIONAL REPORT — Retailers and industry observers are predicting 1985 will be a relatively good year for home center companies, with sales rising between 8% and 12%.

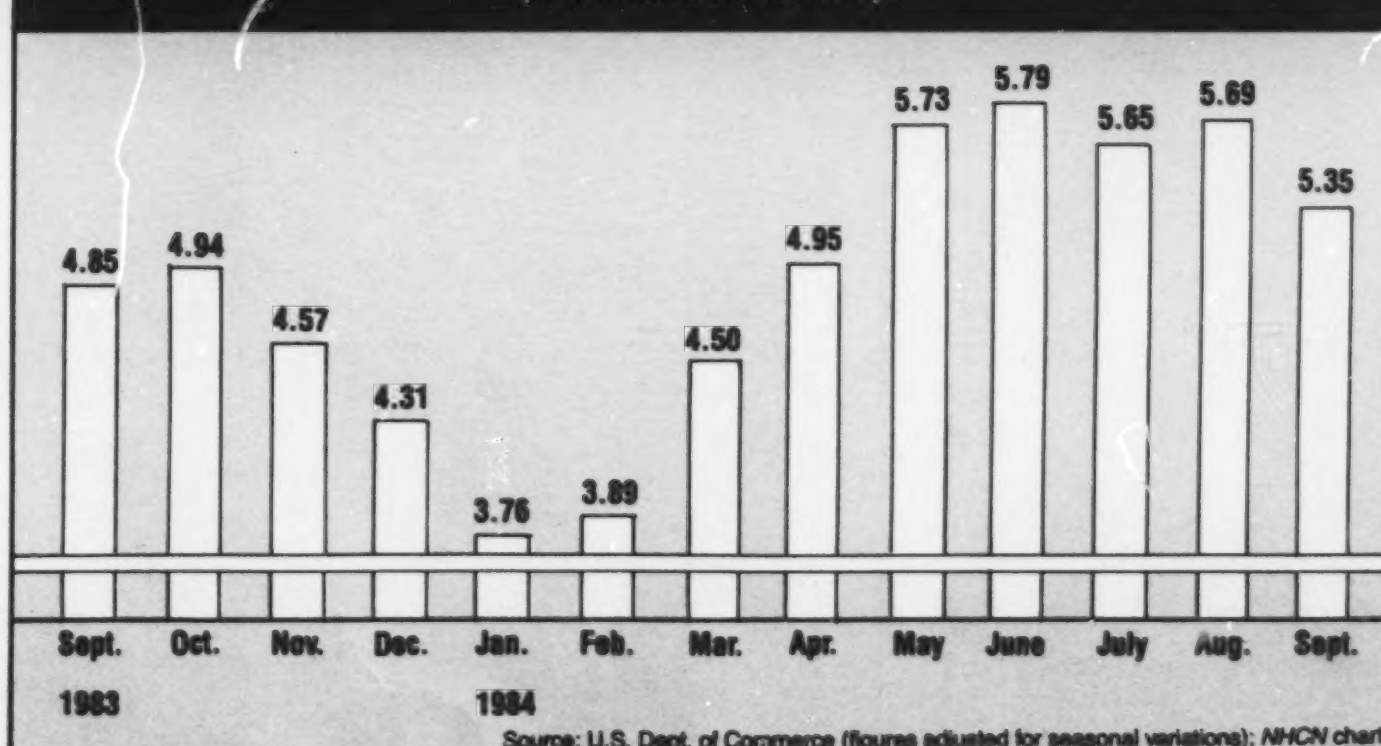
Industry analysts expect the current pause in the economy to break loose for the 1985 retailing year, spawning growth as falling interest rates stimulate activity allowing money to once again flow through the system.

The slowing economy in the latter part of 1984 produced less growth and retail sales than predicted, especially in contrast to 1983, a boom year. Sales growth for 1985 should be more on course, retailers and industry analysts predict.

New housing starts for the coming year, considered a barometer of activity for the home center economy, are projected to fall to about 1.5 million from 1984's anticipated 1.75 million, the National Assn. of Home Builders reported. But despite the projected slide in new residential construction, both the NAHB and the National Assn. of the Remodeling Industry, a trade group, are predicting strong growth in home fixup.

NAHB is projecting a 7% to 8% increase in

Retail sales: Building material, hardware & supply stores
(in billions of dollars)



Latest figures on building material, hardware and supply store sales show September running 10.4% ahead of a year ago, but 5.4% below August levels.

1985 to \$65 million. NARI is estimating professional home remodeling to exceed estimated 1984 levels by nearly 21% to \$52.1 billion.

The fear of a recession has been lifted, most declare. Barbara Alexander, an analyst with Salo-

mon Brothers, New York, and Robert Simonson, an analyst with Kidder, Peabody Co., New York, both have declared

(Continued on page 128)

Four chains show gains; others see 3Q setbacks

NATIONAL REPORT — Third quarter 1984 sales and earnings figures for home center chains show mixed results. Several chains that have been rolling up outstanding performances continue to do so, while others showed losses or earnings declines.

Lowe's and Hechinger are racing toward record sales and earnings for 1984, Home Depot has rebounded from a poor second quarter, and Edward Hines Lumber has shown slight improvement. On the negative side, Homecrafters Warehouse have posted losses for the third quarter and earnings are off at Evans Retail, Erb Lumber and National Lumber & Supply.

Lowe's Companies

Lowe's continues to show impressive sales performance while heading toward record profits for fiscal 1984.

(Continued on page 10)

NHCNews Briefs

Industry Update

Sears to expand small stores

NEW YORK — An executive for Sears told a group of security analysts and retail officials last month that his company would expand its Paint & Hardware specialty store chain to 10 units by the spring of 1985.

Speaking at the 10th Annual Retail Forum conducted here by Walter Loeb, a principal for Morgan Stanley, Sears' executive vp-merchandising Joseph Batogowski said Sears was "very pleased" with the sales from its five existing Paint & Hardware units, and that it planned "to double" that unit count by the spring.

He did not discuss expansion plans beyond this point, and did not identify the new locations for these units, although NHCN has learned that Anaheim, Calif., will be one of the sites.

Grace slates whse name

VIRGINIA BEACH, Va. — W. R. Grace will call its new warehouse chain "Home Quarters Warehouse," and plans to have its first two stores opened by the spring.

A 76,000-sq.-ft. former Montgomery Ward unit in Hampton, Va., and a 103,000-sq.-ft. store in Virginia Beach, Va. (NHCN, Nov. 19), which has been converted from a Woolco, will serve as the first two "Home Quarters Warehouses," according to Frank Doczi, who is president of Grace's warehouse division.

More sku's at new Scotty's

JACKSONVILLE, Fla. — Not only will consumers see a larger Scotty's store than ever before when the company's new store here opens its doors to business this month, they will see more merchandise and totally new interior and exterior designs.

There will be 15,000 stock keeping units on the shelves, compared to the 10,000 Scotty's stores traditionally held. All departments will have product mix expansions, with the hardware and housewares departments having the largest increases.

Gondola heights will be up and H-frame racking is to be used in the commodities areas. In addition, the 28,000-sq.-ft. air-conditioned showroom is designed so it can expand into the 21,000 sq. ft. of warehouse space, if necessary.

Mr. HOW opens new stores

REYNOLDSBURG, Ohio — Mr. HOW Warehouse opened its largest store to date here Nov. 28. Like the other units in the chain, the 89,000-sq.-ft. store has an attached nursery center of some 10,000 sq. ft.

On Nov. 14, the chain opened a unit in Columbus, Ohio. On Nov. 29, two stores were opened in Langhorne, Pa., and Turnersville, N.J.

The company has targeted Jan. 21, 1985, as the opening date for what will then be its largest unit, a 100,000-sq.-ft. home center in Tampa, Fla.

Cohens sell some Payless stock

SOMERVILLE, Mass. — On Nov. 26, the Cohen family, which operates Somerville Lumber & Supply, sold 30% of its stake in Payless Cashways for \$11.7 million. Somerville was purchased by Payless last March. Somerville president Harold Cohen said 750,000 shares were sold.

The Cohens still own 1,750,000 Payless shares that were valued at \$27.3 million at the Nov. 26 purchase price of \$15.63. The price last March, when the shares were obtained, was \$18.75.

"If you were providing for your kids," added Cohen, "would you leave all their eggs in one basket?"



Financial News	10
Editorial	13
Letters	13
Commentary	14
A View From the Street	14
People	16, 20, 126
Classified	122-125
New Stores	126
Price Point Survey	126

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Beaver becomes first Canadian home center to tout whse pricing

TORONTO — The "Warehouse Pricing" promotion shoe has dropped in Canada.

Beaver Lumber, the 175-store Toronto-based chain, now under the direction of John Lacey, declared itself "Canada's first 'Warehouse Priced' home center," in a new advertising campaign that broke early last month in mainly urban markets.

Lacey, who left a vp-operations post at Loblaws, the 130-unit supermarket chain, to take over as president at Beaver earlier this fall (NHCN, Aug. 27), acknowledged the promotion is perhaps more image than substance.

"Prices are fairly much where they were before," he said. Because margins for most Canadian home centers are already at the mid-to-upper-20% range, it is extremely difficult to make a quantum reduction in margins to spur increased volume, the way a number of chains have in the United States. Consequently, converting home centers to warehouse formats doesn't offer the same immediate appeal to retailers in Canada as it does in America,



Toronto-based Beaver Lumber declared itself "Canada's first warehouse priced home centers" in a new campaign that broke in its urban markets.

Lacey observed.

Nevertheless, Beaver's strategy is to make a policy statement "from a pricing position," said Lacey, with the hopes that consumers will get a clearer image of Beaver as a price leader.

Lacey, an avid do-it-yourselfer for the past 20 years—"I

do a major project a year; my wife calls them sanity projects"—says he is still "getting up to speed" in evaluating the inner workings of Beaver, as well as the marketplace and the competition.

"I'm happy to say I was a Beaver customer before joining the company," he added.

Having taken over the reins from Alan Keyworth, who was promoted to executive vp at Molson Cos., Beaver's parent Oct. 1, Lacey said his top priority is to build Beaver into a consistent company. He sees that both in terms of earnings performance, which until recently has swung up and down, and in the message conveyed to consumers, that Beaver offers "variety at decent prices" and service.

Lacey declined to comment directly on how Beaver was performing this year, except to say that the chain, which posted \$471 million (Canadian) in sales and \$12 million in net earnings last year, was "right on plan" this year. With the sluggishness of the economy, that meant matching last year's performance.

Economist predicts 10% housing drop

WASHINGTON — The value of residential construction contracts will fall to \$98.5 billion in 1985, a 4% decline over 1984's preliminary figure of \$102.2 billion, according to the annual Dodge/Sweet construction outlook.

These predictions were given by George Christie, chief economist and vp of McGraw Hill Information Systems at a recent conference here. Housing construction will run at 1.58 million units, seasonally adjusted, for the first quarter of 1985 and reach 1.65 million units by year-

end, as declining mortgage rates have an affect, Christie said. This would be the reversal of the 1984 housing cycle which peaked in the first six months and declined in the last half.

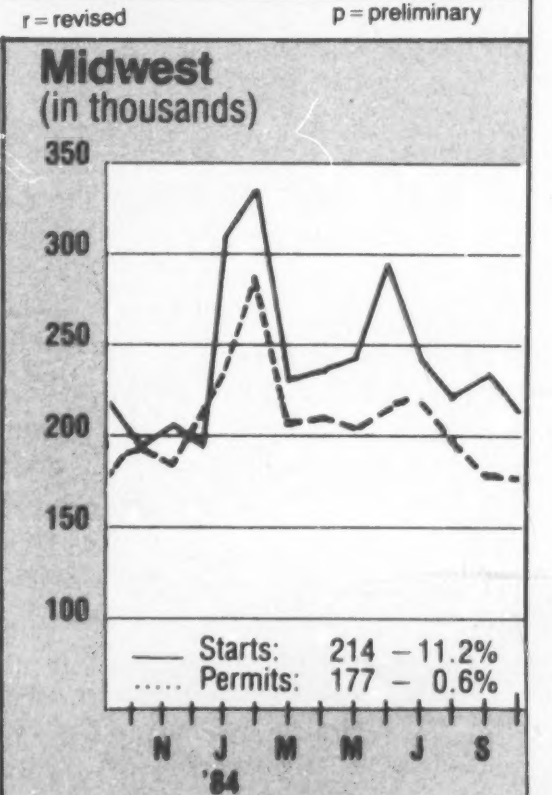
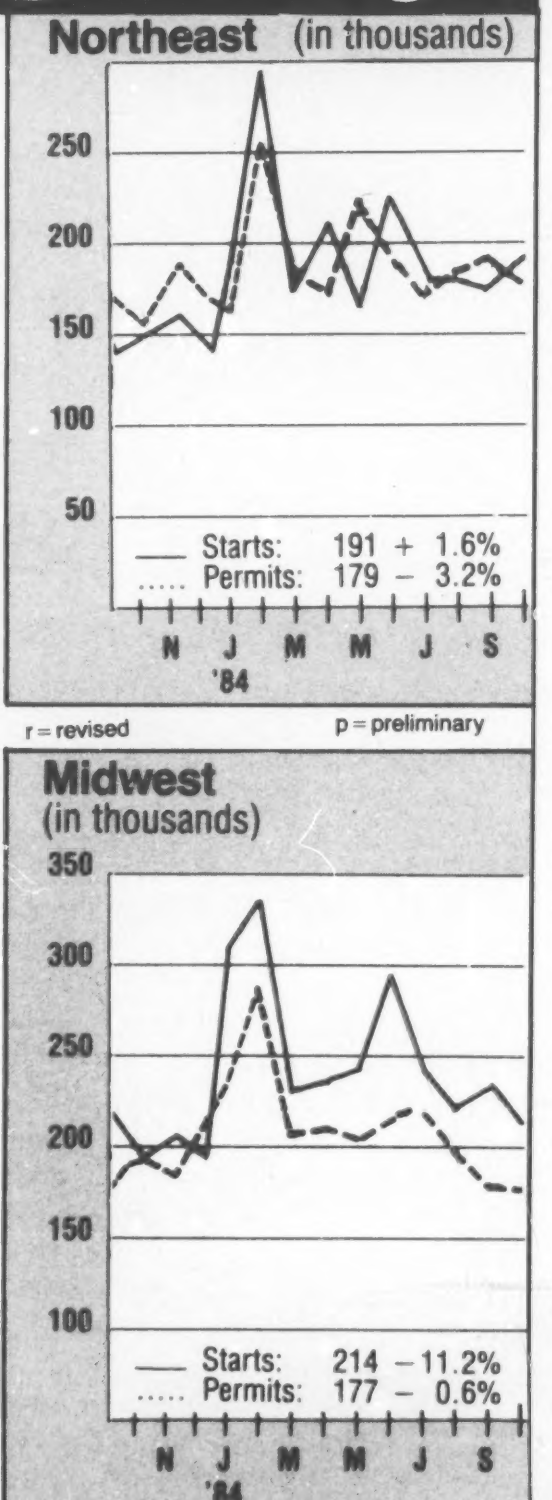
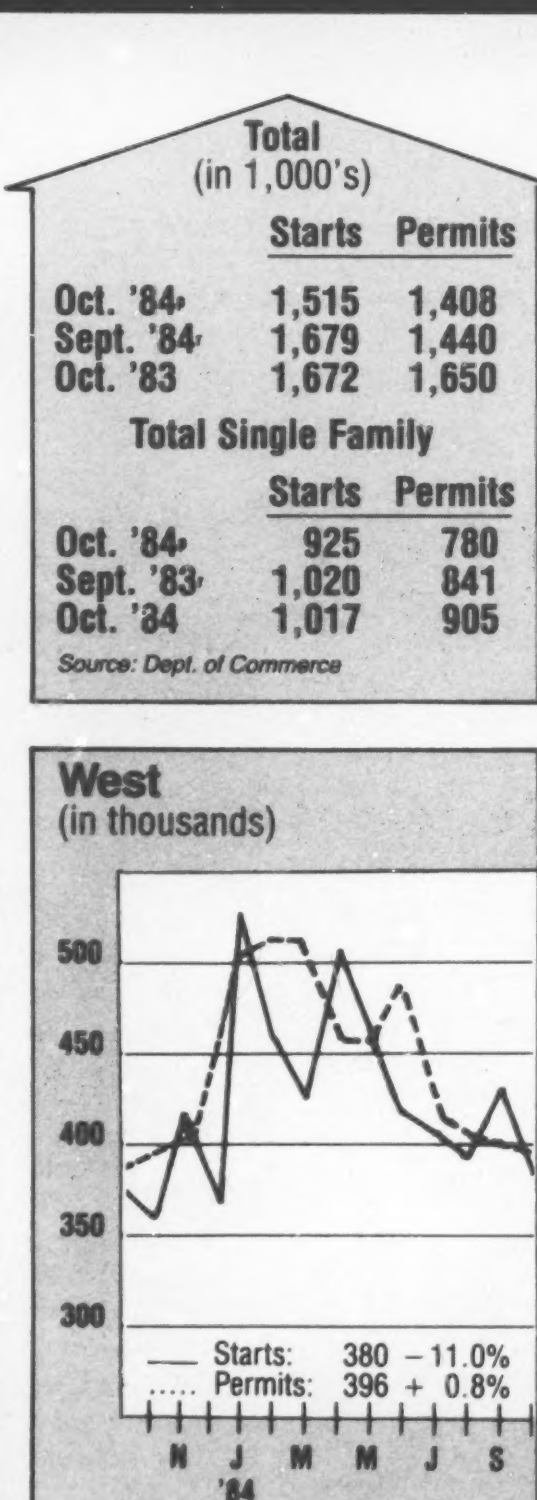
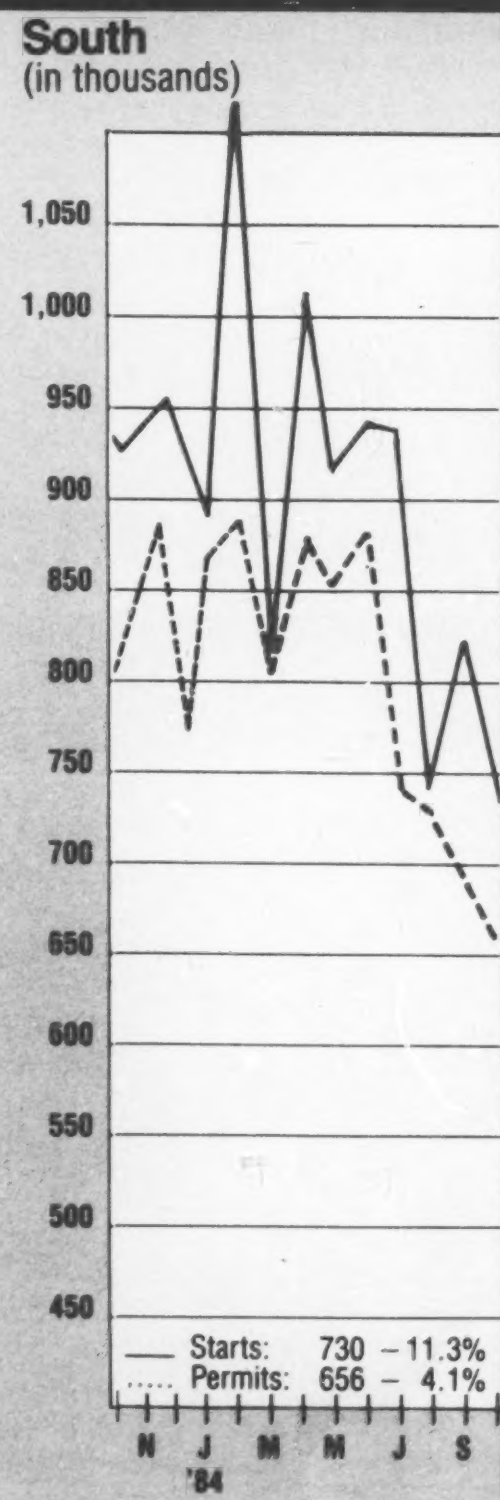
Christie predicted a 10% drop in total housing construction and a shift in emphasis back to single-family homes which would account for nearly two-thirds of all housing construction. Multifamily units would decline from their high 1984 level of 760,000 units to 650,000.

This decline would be reflected in all regions, with the large-

est decrease in multifamily units occurring in the South, an 11% drop, and the West and Midwest falling by 7% and the Northeast by 5%. The total value of multifamily construction contracts would fall from \$28.2 billion in 1984 to \$25.8 billion in 1985.

Although the value of single-family housing construction would decline overall by 4%, two regions would record slight increases, the Northeast would rise by 2% over 1984 to \$8.255 billion and the West by 1% to \$17.75 billion.

October home-building activity



October's total housing starts slumped to their lowest level since December 1982, with 1.51 million units, seasonally adjusted, a fall of 9.8% from September. Single family starts were down by 9.3% to 925,900 units.

However, the recent drop in mortgage interest rates could well lead to an increase in home-building in the near future.

Total building permits fell by 2.2% over September's figures to a seasonally adjusted figure of 1.40 million, nearly 15% below October 1983 permits.

West Home Center Show garners mixed reviews

By Brad Altman
West Coast editor

ANAHEIM, Calif. — The second Western Home Center & Building Materials Show held here Nov. 15-17 was a much smaller show than the debut show which drew 7,000 retailers.

This year there were only 350 exhibitors compared with 1983's 500. Only 52,000 sq. ft. of the Anaheim Convention Center was rented, compared with 62,000 sq. ft. a year ago.

Nevertheless, John Berry, director of the trade show division for Vance Publishing Co., the show's sponsor, said a third show has been scheduled next year in Anaheim for Sept. 19-21.

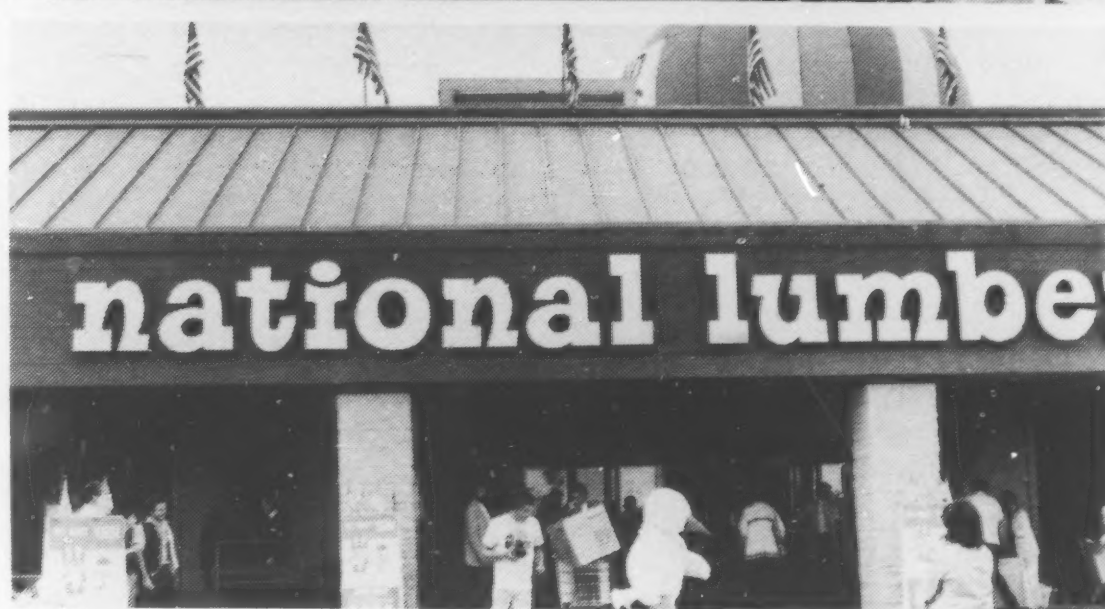
But he added: "If we determine there is no need for the show, then we won't have it. It's up to the exhibitors."

Based on preliminary estimates, attendance at the three-day exhibition "may be up ever slightly more" from 1983's 7,000 attendees, Berry said. Organizers kept the show open until 8 p.m. on opening day and allowed retailers to bring their children on closing day in an effort to boost traffic. (The children were not counted in show attendance estimates, Berry said.)

The complexion of the show was dramatically different this year. Among lumber and millwork exhibitors, for instance, only seven of 27 exhibitors who participated in the 1983 show returned this year. There were 15 first-time exhibitors in this category. Only four of the more than two-dozen 1983 exhibitors of adhesives, caulks and sealants products returned this year. There were six new exhibitors in this category, according to a listing in the show program.

Eric Berman, manager of DIY floors advertising and marketing for Armstrong World Industries, Lancaster, Pa., said retail traffic was not "as good as it should be or could be." But he said the show "is a well-organized local show. . . . We have seen the people we want to see—the principals of chains."

According to Berry, retailers from 13 Western states attended the show, but exhibitors said they were mainly seeing California retail companies. The show drew representatives from most southern California home centers, including Ole's, Builders Emporium, Home-Club, Neiman-Reed's Lumber City, and a myriad of indepen-



Said one exhibitor at last month's Western Home Center Show (top) in Anaheim, Calif.: "More [retailers] are at the National Lumber opening [than here]." National's 15th store debuted in Ontario, Calif., (bottom photo) on Nov. 16.

NHCN photos

dents including Sackett & Peters. "I'm mainly here to visit old friends," said Rudy Sackett, president of the single-unit independent in Whittier.

"I like the show a lot better this year," commented Michael O'Malley of Mallico Lumber/Building Materials, Phoenix. O'Malley, a member of the Western Show's advisory board, said the exhibition had a heavier emphasis on building materials this year.

Leroy Maughan of LePic Systems, Lindon, Utah, said he saw "20 people—decision makers—ready to put a [computer software-hardware] system into their stores. These retailers did \$1 million to \$3 million in annual sales," Maughan reported. He added: "We've gotten a lot of exposure" for his company's turnkey business automation systems.

At the Ace Hardware Co. booth, Joe Mox, observing the light turnout, said, "it doesn't matter how many cows. It's the milk—and, for Ace, it was high in butterfat content."

Robert Salus, sales vp for Commodore Products, Chats-

worth, Calif., said "there is no way you could call it a good show. More people [retailers] are at the National Lumber opening," he added, referring to the grand opening of National's 15th store in Ontario, Calif., on Nov. 16.

According to Vance's Berry, an attempt to offer a "careers day" at the show for new college graduates failed to draw more than a handful of student participants despite advertisements in 15 college newspapers and mailings to placement directors of 175 colleges.

The keynote speech by Sanford C. Sigoloff, chairman of Wickes Cos., focused on the life cycle of industrial nations and the rapid changes occurring as a result of the third industrial revolution, which he said is now in progress.

Sigoloff said that the United States is now facing problems similar to those of troubled companies. "Without a planned regeneration policy, our industry may plunge into stagnation, and our national life cycle may be limited to the all-too-familiar patterns of decline."

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SHEPHERD 'FILL-RATE' UPDATE

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Corrections

A recent Price Point Survey (NHCN, Nov. 19) incorrectly stated the price of a Paramount PB-150 power blower in a Whippany, N.J., Channel Home Center. The correct price was \$39.99.

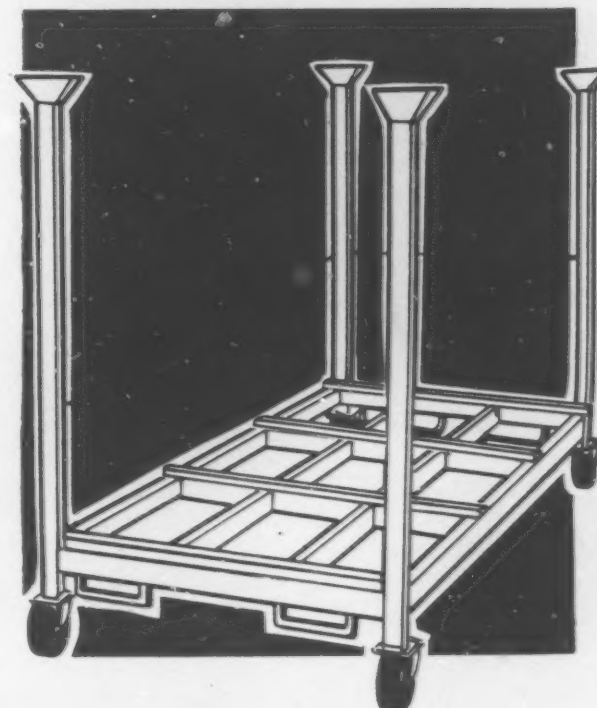
A typographical error changed the meaning of the last line in "Busy Beaver Breakup" (NHCN, Nov. 19). The line should have read, "... Lou Massaglia, who was gm of a Busy Beaver distribution center and will now be a vice president at Fagen's company."

During the first six months of 1983, the state of Texas issued 57,146 single-family building permits, compared to 50,332 during the first half of 1984. A misprint in a chart in NHCN's Oct. 22 issue overstated the 1983 first half figure.

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Solid balance sheet builds fiscal muscle

By Ron Gurczynski
NHCN associate editor

While Lowe's still faces a variety of hurdles as it attempts to develop its retail business, one obstacle facing many expanding home center companies does not appear to be a threat to Lowe's: financing its future.

By many measures, Lowe's has one of the strongest balance sheets in the home center industry, and by some measures, in the retailing field.

The firm should end its fiscal 1984 with \$1.7 billion in sales, a 21% increase over 1983's \$1.4 billion. According to estimates from Value Line Inc., net earnings after taxes should move from fiscal

1983's \$50.6 million to \$60 million for fiscal 1984. Sales for fiscal 1985 should approach \$2.05 billion with \$72 million projected in net earnings.

Even more enthusiastic is Salomon Brothers' Barbara Alexander, who said, "I'm looking for 20% to 30% earnings growth next year. The fact that Lowe's has been adding square footage at the rate of 20% a year with comparable sales gains is pretty aggressive."

Lowe's earnings increase is due in large measure to its success in attracting the retail customer through its RSVP merchandising program. Over the last five years, the growth of Lowe's retail sales has eclipsed that of pro sales. Retail sales have gone from \$393.2 million in fiscal 1979 to \$723.6 million in fiscal 1983, a compound growth rate of

16.5%, while annual pro sales have dipped somewhat from \$511.5 million and then rebounded \$706.9 million over the same period, a compound growth rate of only 8.4%.

Aetna Variable Fund's John Shay observed, "I see Lowe's as a duckling that is turning more into a swan, becoming more of a retailer. They have been successful in upgrading their format and their image." Aetna Variable Fund is one of the larger institutional investors in Lowe's, holding 509,000 shares.

In comparisons with other home center companies and with different segments of the retail industry, Lowe's puts in a good performance overall. The accompanying graphs, part of a 1984 Statistical Review of the Retailing Industry produced by First National Bank of Chi-

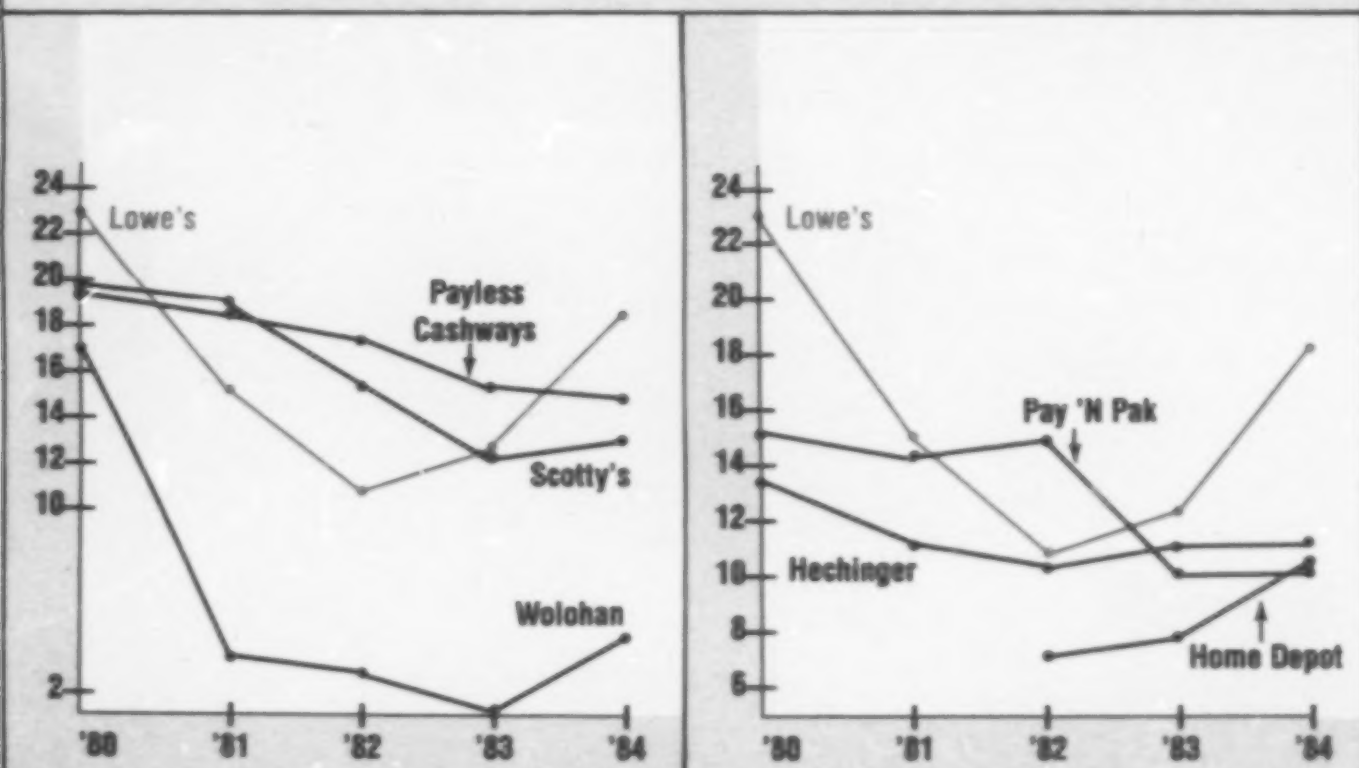
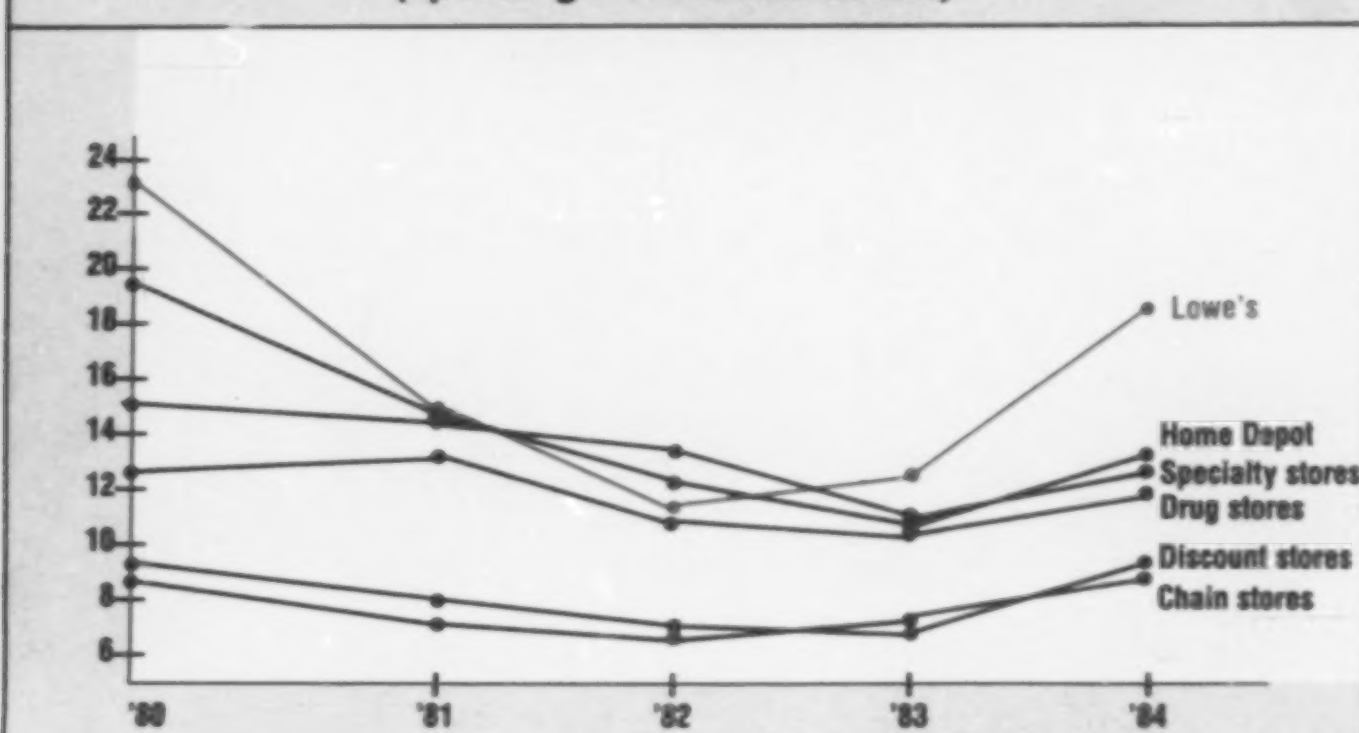
cago, show Lowe's as an outstanding performer in earning power, and Lowe's tops the other firms by small margins in return on common shareholders equity. In net income as a percent of total sales, Lowe's ranks below The Home Depot, Hechinger and Pay 'N Pak.

Lowe's does well in a Value Line report on home center companies. It exceeds other home centers in earnings per share and it ties Home Depot for first place in return on equity. As to net profit margins, Lowe's falls in the middle of the category.

Lowe's is likely to be able to finance its future through debt offerings if it so chooses because of its tremendous borrowing reserve. Lowe's was the least leveraged home center company in the

(Continued on page 120)

EARNING POWER (operating income/total assets)*

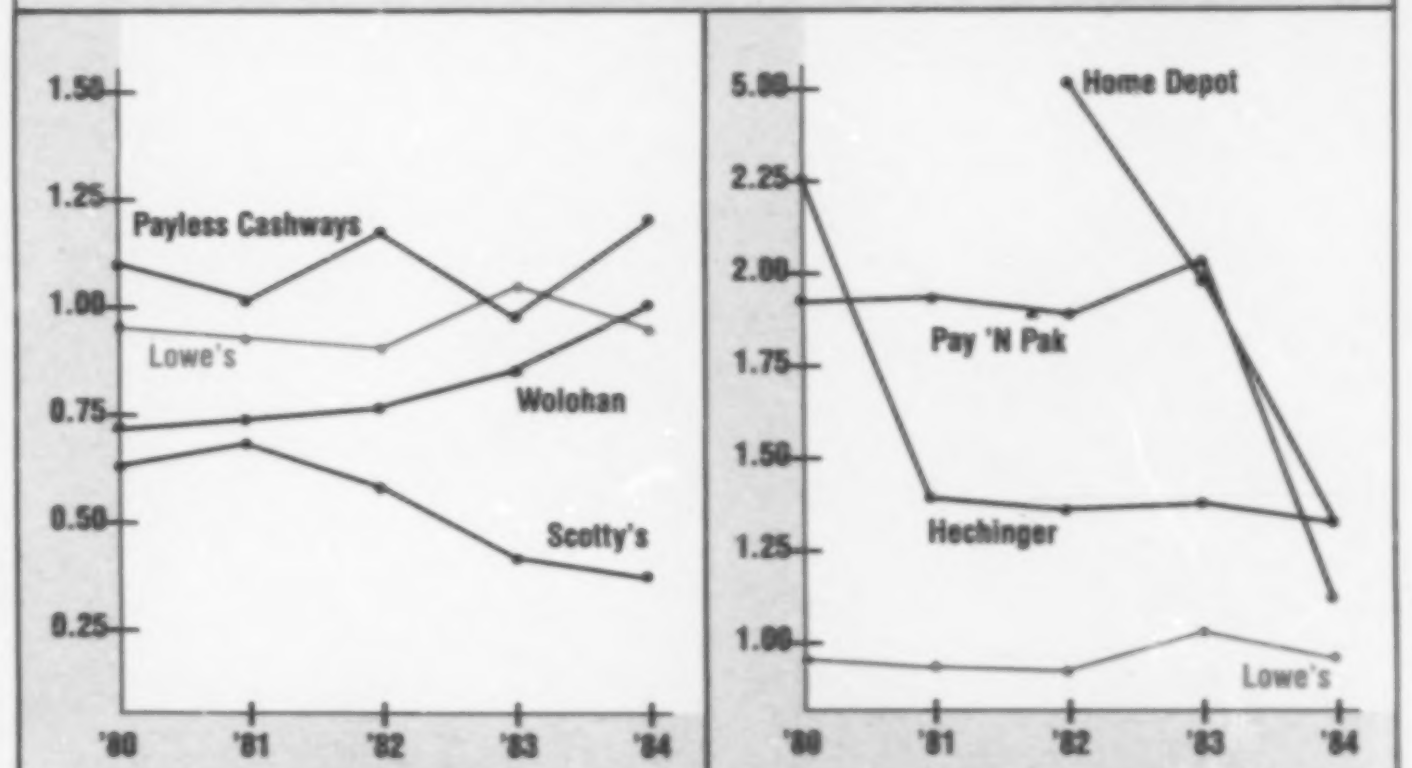
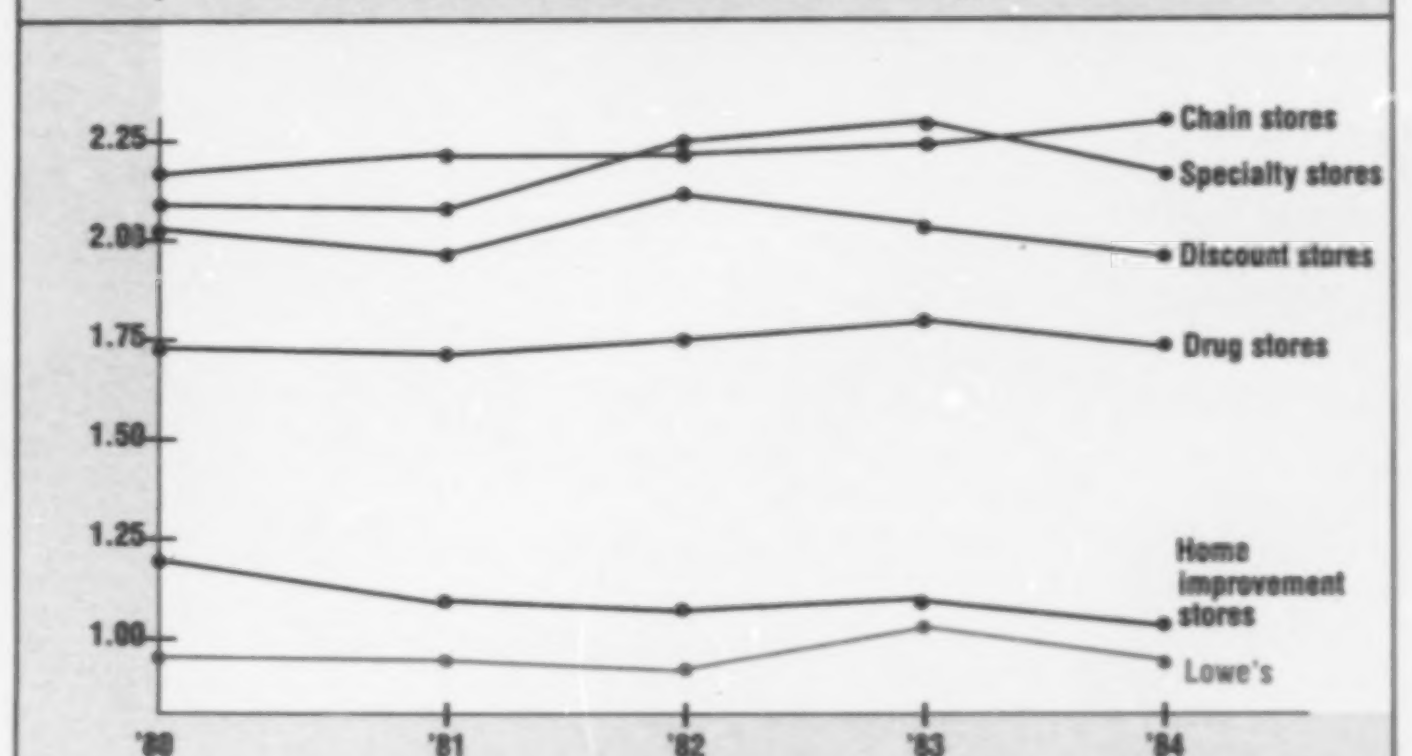


*Operating income is income before taxes, interest expense, interest income, other income and extraordinary items

Source: First National Bank of Chicago

Lowe's demonstrates its ability to use its assets as it bests the home improvement industry and the selected home improvement stores.

LEVERAGE (total unsubordinated liabilities/effective tangible net worth)*



*Total unsubordinated liabilities are all liabilities (including the present value of operating leases) except subordinated debt; Effective tangible net worth equals net worth plus subordinated debt less intangibles

Source: First National Bank of Chicago

Lowe's conservative financial stance is illustrated by this comparison of leverage ratios.

Crisp asset management supports move to DIY retailing

Lowe's has refined its method of asset management and has taken advantage of favorable funding opportunities over the past four years, since the arrival of corporate cfo Clayton Griffing. It appears the company is well-equipped to financially manage its future growth.

One of several outside experts that Lowe's hired in the initial days of the RSVP retail merchandising program, Griffing was charged with moving Lowe's financially into the realm of DIY retailing. Said Griffing, "When I came on board, my responsibilities were not crisply drawn. Basically, Leonard Herring asked me to reassess the whole family of functions that make up finance." Griffing was well-suited to the task, having served as cfo of Atlantic Steel for several years prior to joining Lowe's.

Griffing and his team keep a close watch on accounts receivable and inventory, two critical assets in retailing. As of the second quarter, which ended July 31, 1984, these two items accounted for 60% of total assets. Griffing is responsible for receivables and he keeps an eye

on inventories, the domain of executive vice president J. Ross Burgess.

Inventory, the raw material of profitability, is Lowe's single most important asset and stood at \$257 million as of July 31, 1984. Lowe's sales to inventory ratio—total sales divided by average inventory at cost—revealed that inventory turned a vigorous 7.0 times in fiscal 1983, according to Value Line Inc. This compares favorably with Scotty's 5.2, Hechinger's 5.3, and Home Depot's 4.4 performances in 1983. According to estimates by Value Line Inc., Lowe's inventory turn should improve to 7.2 over the next few years, suggesting ever increasing quality of inventory management.

Accounts receivable comes almost entirely from sales to professional builders, since General Electric Credit is responsible for collections on Lowe's credit card program. Lowe's receivables, which amounted to \$124 million on July 31, 1984, turn every 43 to 45 days. The accounts receivable loss is a low 1.1%, down from about 1.3% during the last recession, according to Griffing.

Lowe's aggressively manages its cash, earning over \$1 million on this as-

set last year. The majority of Lowe's cash reserve is held in short-term—usually 30 days—CDs and Eurodollars. Electronic funds transfer, which Griffing instituted four years ago, keeps Lowe's cash working as much as possible.

At the close of each business day, all Lowe's stores deposit their total day's receipts into local banks. At the same time, all the stores Telex their total receipts to Lowe's North Wilkesboro headquarters. There, all the receipts are placed on an electronic tape and delivered to Northwestern Bank before 5 o'clock p.m. The tape is run through the automatic clearing house system in the Federal Reserve Building in Charlotte. At this time, Lowe's accounts in all the local banks are debited the amount of the day's receipts and Lowe's main account with Northwestern is credited the same amount. At appropriate times, Griffing and his staff decide whether to place the cash in CDs, Eurodollars, or disburse it for expenses.

Also since Griffing's arrival, the management of fixed assets has been elevated to a place equal in importance with

accounts receivable and inventory management. "Fixed asset management has taken on a new positive role at Lowe's. We are now applying capital budgeting techniques, which in the past were only used in industry and heavy manufacturing, but perhaps not in retailing." As an example, Griffing said that Lowe's uses capital budgeting—discounting future cash flow back to the present—in new store planning, placing the store's costs and expected returns in the budget planning process.

Besides keeping a tight rein on its assets, Lowe's has taken advantage of favorable funding opportunities. As Griffing said, "Like a boxer, a well-managed company has to have more than one punch. Last year, we took advantage of a strong equity market. Now, we're going to the debt markets." In early 1983, Lowe's was able to take advantage of a bull market by raising \$54 million through a public stock sale. Now, the firm is planning to take advantage of lower interest rates by doing a \$40 million private placement of long-term debt.

(Continued on page 121)

LOWE'S: FINANCIAL

Lowe's reaps benefit from investor relations



When Lowe's needs a detailed analysis as to why a certain store is performing poorly—or, indeed, when it needs a financial investigation in any area—it turns to Edward F. Greene, Sr. reporting directly to company president Leonard Herring. Greene started as a store manager with Lowe's in 1954. Today, he understands the income figures better than anyone," according to one company official.

(Continued from page 119) of the company through Lowe's Employee Stock Ownership Plan (ESOP).

About 15% of the stock is now held in Europe, where Lowe's introduced the stock in 1981 as a way of increasing its shareholder base.

Carol Ruth, senior vp at Hill and Knowlton, the public relations agency, and chairman of the National Investor Relations Institute, said Lowe's has "one of the most outstanding programs in Europe."

"Companies go to Europe, do a tour and think that's doing investor relations," she said. "It takes a lot more continuity and being available to people. Lowe's has done that very successfully."

The next step for Lowe's, according to Oxford, "is to become a more visible corporate citizen and to work toward enhancing our position not only by sharing information with our investors, but also in Government relations—legislation that can affect our company."

Other industry leaders say Lowe's leadership position in investor relations has favorably affected other home improvement retailers, because it established on Wall Street that the business is a distinct, investment-quality industry.

But why Lowe's goes to such expense and excellence may go

even deeper. If the company were located in a major population center and was involved in a glamor industry, perhaps less effort would have been necessary.

For a company that started as a small hardware and discount store business in the foothills of North Carolina's Appalachian

mountains, however, just good corporate performance wasn't enough. Getting Wall Street to notice performance required patient, polished and consistent attention.

As Brantley quipped, "It's always assumed by those in New York that, unless it's invented there, it's not any good."

Asset management supports retail biz

(Continued from page 115)

To finance inventory short-term, Lowe's has a \$40 million line of credit with several banks led by Northwestern Bank, of which Lowe's president Leonard Herring is a director. An additional \$10 million is on standby. Because of the strength of its cash flow, Lowe's hasn't needed to use the credit line for the last several years.

More stores

Other financing options Lowe's has used include leasing, sale-leaseback arrangements and industrial revenue bonds (IRBs). Mostly as a result of takeovers of existing stores, Lowe's currently leases 32% of its units. In the future, however, Lowe's expects to own all of its new stores because of its demand for size and better retail locations. Earlier in the year, Lowe's sold eight stores to the Ohio Teachers Retirement Fund and is leasing them back. Recent tax law changes, however, are making these deals less attractive.

A still promising method of financing is the IRB, which Lowe's has used in the recent past. "We will do an IRB whenever we can," says Griffing, alluding to the attractive interest rates associated with these bonds. The new Lowe's unit in Douglasville, Ga., was financed through an IRB. But large companies like Lowe's are running into challenges to using an IRB brought by small competitors. Says Griffing, "We're trying to do an IRB in West Virginia now. A man from a local lumberyard brought all of his employees and their families to the hearing, where he said that if we got the IRB his people would lose their jobs."

1984 & 1985 projections for selected home center companies

	Sales (in mil.)		Profit Margin (Net)		Earnings Per Share		Return on Equity	
	'84	'85	'84	'85	'84	'85	'84	'85
Lowe's	\$1,710	\$2,050	3.5%	3.5%	\$1.65	\$2.00	17.5%	18.0%
Hechinger B	400	520	5.3	5.0	1.15	1.40	17.0	17.5
Home Depot	420	600	3.3	3.2	0.55	0.75	17.5	18.0
Pay 'N' Pak	305	350	4.1	4.0	1.25	1.40	12.5	12.5
Payless	1,170	1,400	3.3	3.3	1.20	1.40	15.0	15.0
Scotty's	424	485	4.3	4.3	1.39	1.55	12.9	12.5

Source: Value Line Inc.

Notes to financial chts. on Pages 27 & 115

Home improvement stores' average includes Lowe's, Payless Cashways, Scotty's, Hechinger, Pay 'N' Pak, Color Tile and Wolohan Lumber for the fiscal years 1980 through 1984. Fiscal years 1982 through 1984 include Home Depot; fiscal years 1980 and 1981 include Erb Lumber.

Specialty stores include such chains as Pic 'n' Save, The Limited, Melville, Charming Shoppes, Miller-Wohl, Edison Bros. and The Gap.

Drug stores include such chains as Longs Drugs, Rite Aid, Hook Drug, Revco D. S., Pay Less NW, Pay 'n' Save, Fay's Drug and Walgreen.

Discount stores include Family Dollar, Dollar General, Wal-Mart, SCOA, Zayre, Duckwell, Rose's, S. E. Nichols and Glosser Bros.

Chain stores include Sears, J. C. Penney, K mart, F. W. Woolworth, G. C. Murphy, Montgomery Ward and Household Merchandising.

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Smooth sailing seen for 1985 industry growth

(Continued from page 5)

that 1985 will not be a recession year. "This is the pause [in the economy] that refreshes," said Simonson, who in July has predicted 1985 would be a recession year. "Lower interest rates should shortly spur growth."

While most home center executives agree, they are guarded about sounding too confident in the face of fierce competition in some markets.

In Florida, for example, home center activity is sharpening. In Jacksonville, Mr. HOW, Home Depot and the new Scotty's prototype will make competition keen.

"The whole industry is finding itself in a much more competitive posture now. It's going to get tougher before it gets better," asserted Ray Cooney, president of the 112-unit Scotty's chain based in Winter Haven, Fla. He added that 1985 "will be a classic example of a very strong competitive market where the companies which are well financed, have trimmed costs and which exercise sound business principles will survive. In the next 24 months, many companies will not make it and we'll see people now who will not be with us then."

Cooney is estimating that Scotty's 1984 sales will exceed \$475 million, \$76 million more than was recorded in 1983. He also said the Florida chain will open between five and eight new stores in the coming year.

"Considering the atmosphere of the economy, we had extremely good sales and we and our stockholders feel we've done a very good job this year. If we do as well next year, we'll be more than happy," he commented.

Other industry giants like Lowe's, Hechinger and The Home Depot eagerly await 1985, a year that promises to be fruitful for them.

Arthur Blank, president of Home Depot, said 1985 will be a strong year for the 22-unit Atlanta-based firm. Home Depot will add 15 more stores next year plus operate the nine existing Bowater stores and the one already under construction, which it purchased.

Lowe's, the 243-unit home center company based in North Wilkesboro, N.C., is predicting sales growth in the coming year of about 20% to almost \$2 billion, from an estimated \$1.7 billion by the end of fiscal year 1984, which ends Jan. 31, 1985.

Cliff Oxford, director of corporate relations at Lowe's, said that declining interest rates offer "a positive edge for the company and the whole industry." The health of housing is particularly important for Lowe's, which derives almost half its volume from sales to home builders.

During an analysts meeting in New York last month, M. Benfield Phillips, vp of corporate professional sales at Lowe's, reported fourth quarter pro sales—which comprise about 50% of all company sales, 80% of which is dedicated to the home builder—should be up 8% to 12%, at a time when housing starts are expected to decline 7% to 10%.

In 1985, Lowe's retail operation will face further challenge from Hechinger, the 44-unit chain based in Landover, Md. Hechinger this fall introduced its first warehouse store, in a Lowe's market—Raleigh, N.C. In early 1985, the Maryland-based home center chain will open another of its warehouse stores, in Greensboro, N.C. Commented Hechinger executive vp Philip J. Mansfield: "We see 1985 as a very good year for us. The major home center chains should continue to expand next year. We do not see a recession for 1985."

Payless Cashways, the 157-unit, Kansas City, Mo., chain that had a more difficult year than expected in 1984 due to heavy competition in the Phoenix market that forced gross margins down below the company average, also looks forward to a better 1985. Company president David Stanley said 1985 should produce "something more than 20% sales on a less than 10% comp-store gain." The estimate puts the company slightly below its 10-year sales gain average of 28%. Also, Payless will open about 15 new stores in 1985. It open 21 in 1984.

A particularly bright spot for Payless, however, is its Somerville Lumber division based in Massachusetts. Somerville president Harold Cohen has announced that fiscal 1984, which ended Nov. 24, had a sales increase of 29% to \$59.1 million. Pretax earnings are estimated to be about \$6.9 million. In 1983, Cohen said earnings were \$2.9 million on sales of nearly

\$45.9 million.

For 1985, Cohen is predicting a 39% increase in sales for Somerville Lumber with the Somerville store doing \$45 million, the Westboro location doing \$20 million and the new West Bridgewater store doing \$17 million. Also, Cohen said future Somerville sites are being scouted north of Boston and in southern New Hampshire.

Steve Wiley, executive vp of Homecrafters Warehouse, a 41-unit chain based in Birmingham, Ala., is optimistic about 1985, despite its poor showing in 1984. "Because of our pre-opening expenses this year, we don't expect to make money," he said, adding that in 1985, "we'll be reaping the pay-off of all the stores we opened this year and from the additional stores we'll be adding next year."

Wiley said Homecrafters, which started its warehouse concept this year, is planning to open three new stores by spring, one of which will be in Alabama.

Hill-Behan Lumber Co.'s Patrick Behan, vp of the St. Louis division of the 33-unit St. Louis, Mo., chain, is predicting 1985 will provide between 10% and 12% sales gains plus the addition of one more unit. Forecasts for 1984 are 10% ahead of 1983 sales, Behan noted. "We just keep ploughing on; we're a survivor. The economic environment was a lot better in 1984."

The current year is proving to be a successful one for the six-unit HomeClub warehouse chain, Long Beach, Calif. George Handgis, executive vp, said the chain, launched in October 1983, expects to end its first full year of business with sales of \$70 million. It also expects to open eight to 15 new stores next year.

Paul Conley, assistant general manager and vp of the 19-unit O'Malley Building Materials, Phoenix, said he is "bullish" on prospects for both O'Malley's builder supply and consumer business in 1985.



'The whole industry is finding itself in a much more competitive posture now. It's going to get tougher before it gets better.'

—Ray Cooney, president, Scotty's, Winter Haven, Fla.



'We see 1985 as a very good year for us. The major home center chains should continue to expand next year.'

—Philip J. Mansville, exec vp, Hechinger, Landover, Md.

Competition is strong in the Phoenix market, where The Home Depot, Payless Cashways, Angels and Handyman compete. Despite this, Conley said he expects a 10% sales gain at O'Malley's companywide. "Interest rates are going to come down more and this will ignite the builder end of the business," he said. "Home building is going to be better than we could even hope for. That's my gut feeling." He said total sales in 1984 gained 8% over 1983.

Fierce competition is not swaying Courtesy Home Centers of Chicago, a four-unit chain, off course, asserted vp Zangwill Munies. "We're looking at it very positively and optimistically," Munies commented about 1985. "In spite of increased competition [from Builders Square, which opened in Chicago this year] I'm not going to change my style."

Adding to the activity there, Munies said Courtesy will break ground next August on a 90,000-sq.-ft. store in southwest Chicago, due to open in 1986. Currently, the chain's fifth store, a 90,000-sq.-ft. unit in Skokie, Ill., is scheduled to open later this month.

While many home center retailers are optimistic about the approaching year, others are somewhat pessimistic.

Ted Tanase, president and ceo of the Lanoga Corp., the Seattle, Wash.-based holding company which operates the United Building Centers, Spenards, Lumbermen's and Peavey chains, predicts 1985 will be a "flat year. We are looking at it conservatively."

Next year, Tanase said, he expects a 12% sales gain over 1984; 1984 should generate sales of \$345 million, a 15% increase over 1983 sales, he said.

Tanase said the economy really bore down hard on the company this year. The large drop in single-family housing starts in Alaska, where Lanoga operates 11 Spenard home centers, and in Montana, where the firm operates several United Building Centers—plus declining lumber prices, and high operating costs left its mark on the company. "The economy did not help us much at all," he asserted.

When comparing 1984 and 1985, Tanase said he expects both years "to be about the same. We will pick up some market share here and there."

Grossman resigns from Evans

(Continued from page 5)

days we would work to develop a plan to restructure this debt," said Glazer. He would not elaborate on how this might take shape.

With the Grossman offer on the horizon, Posner has in front of him a number of options he could use to reduce his company's debt burden.

One would be to let Grossman buy the company's retail division, pending the banks' approval, the payment for which would solve most of Evans' immediate debt problems.

The second would be for Posner to raise capital to pay the debt either through his own network of companies or through external financing. This might be difficult, as three of Posner's largest companies—NVF Inc., Sharon Steel, and Evans—suffered losses of more than \$100 million through the first nine months of this year.

Were Posner able to raise this money for the debt, it is generally assumed by company officials that his 22-year-old daughter, Tracy, will play a greater role in running the retail group. Currently a vice president with the company, she, along with Lindsley Home Center executive Hank Kirschner, has been acting as a "liaison" between Braintree and Evans' corporate headquarters in Miami.

The third option would be for Posner to continue looking for an outside buyer. Last month, it was reported that Evans had broken its Retail Group into three different-sized components, a move seen as making each more palatable (NHCN, Nov. 5). However, with Grossman's departure, the chains have lost leadership.

"To the outside world, I don't think Mike's leaving makes any of the retail properties more attractive to buy," said a former Grossman's executive. "Whatever you can say about Mike personally, Evans Retail has always made money. It may not be the more innovative group of chains, but it performed under Mike."

Ironically, any struggle for the control of the Retail Group comes at a time when its profitability has been showing signs of wear. In the third quarter ended Sept. 30, the retail division's operating income fell to \$20.9 million, compared to \$25.1 million in the same period a year ago, a 16.7% decline. And nine-month figures show that operating income has fallen off even more precipitously, by 30.6% to \$35.8 million.

However, Evans Retail is regarded in the home center industry as Evans Products' "cash cow," and most observers think the company's new vitality, through the development of

warehouse stores in many parts of the country, will reinvigorate its earnings.

For Grossman, the sales and earnings of the company may be secondary to his attachment to the firm. Home center retailing has virtually been his life, as he joined L. Grossman, his family's business, in 1947, and rose to the top until Grossman's was sold to Evans Products in 1969. Two years later, he was named president of Evans Retail, which now consists of six separate chains.

His agreement to take what company officials are calling an extended leave of absence came after a series of telephone conversations he had with Posner. "Both agreed that Mike, in order to avoid the appearance of a conflict of interest, should step down temporarily while his offer is being considered," said Glazer.

On Monday, Nov. 26, at 4 p.m., Grossman gathered company officials and some long-time employees together, and read his decision from a short speech he had prepared himself. The message was also delivered by conference call to executives at Evans Retail's other chains.

Then, he left the office, reportedly with little fanfare, turning over the reins of his company to someone else for the first time in 37 years.

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